



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

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MEMORANDUM FOR:

All CDBG Grantees
All CPD Field Office Directors

FROM:

Mercedes Márquez
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SUBJECT:

Housing Counseling under the Community Development
Block Grant (CDBG) and Neighborhood Stabilization
Programs (NSP)

This memorandum provides information on how CDBG and NSP funds may be used for housing counseling. Housing counseling programs provide information, advice, and assistance to homebuyers, homeowners, and renters with the goal of preventing loan defaults, foreclosures, or non-payment of rents. Additionally, under the CDBG program, housing counselors may assist a homeowner in the context of foreclosure mediation programs in which the homeowner is working directly with a lender. Information will be provided on how CDBG funds may be used for housing counseling, followed by information on the use of NSP funds for housing counseling.

Community Development Block Grant Program

The CDBG program is a flexible program that provides local governments with resources to address a wide range of unique community development needs. Under both the Entitlement and State CDBG programs, grantees may fund housing counseling activities under several eligibility categories as discussed below.

CDBG-Assisted Housing Counseling As A Public Service

Housing counseling is eligible as a public service under 24 CFR 570.201(e) and Section 105(a)(8) of the Housing and Community Development Act of 1974 (the Act). Housing counseling activities assisted with CDBG funds may qualify as benefiting low- and moderate-income persons under either the low- and moderate-income area benefit or limited clientele national objectives [24 CFR 570.208(a)(1) or (2) and 24 CFR 570.483(b)(1) or (2)]. Any housing counseling activities undertaken as public service activities are subject to the statutory 15 percent public service cap.

The following are examples of housing counseling activities that may be assisted with CDBG as public service activities, provided a national objective is met:

- **Pre-purchase Housing Counseling.** Grantees may assist housing counseling programs for those interested in purchasing a home. The counseling generally consists of information on financial responsibilities, budgeting, housing needs, housing quality, maintenance requirements, and other costs associated with a home purchase.

- **Homeownership Counseling.** Grantees may carry out homeownership counseling for financially troubled homeowners. Here, the emphasis is on financial management, debt management, and maintenance needs. Included are default counseling, foreclosure prevention counseling, foreclosure mediation, and relocation counseling.
- **Rental Counseling.** Grantees may provide housing counseling for delinquent renters, tenants facing eviction, and provide education regarding landlord and tenant rights and responsibilities, including repair and maintenance issues and the availability of rental assistance.
- **Emergency Housing Counseling.** Housing counseling may be provided for employees and residents affected by plant closings and/or corporate acquisitions. Most or all of the subjects listed above may be a part of this type of counseling.

CDBG-Assisted Housing Counseling Not As A Public Service

- **Homeownership and Housing Counseling.** Housing counseling is eligible as part of a homeownership assistance program carried out under the authority of 24 CFR 570.201(n). Such counseling may include budgeting, credit counseling, and housing maintenance costs. Many jurisdictions require prospective homeowners to attend housing counseling classes as part of the homeownership assistance program. Such counseling would be considered an activity delivery cost of the homeownership assistance program and would still be considered an incurred expense under 24 CFR 570.201(n), even if the prospective homeowner leaves the homeownership assistance program and/or housing counseling. Any CDBG assistance provided under 24 CFR 570.201(n) must be targeted to low- and moderate-income households, and the housing counseling provided under this authority must meet the low- and moderate-income housing national objective criterion [24 CFR 570.208(a)(3); 24 CFR 570.483(b)(3)].
- **Rehabilitation Housing Counseling.** Rehabilitation counseling is an eligible activity under 24 CFR 570.202(b)(9). Such counseling may be targeted toward low- and moderate-income homeowners who are having CDBG-assisted rehabilitation performed on their homes and may include energy auditing, energy conservation, and budgeting. Such housing counseling must meet the low- and moderate-income housing national objective criteria.
- **Housing Counseling to Support HOME Activities.** CDBG funds can also be used to provide housing counseling in support of HOME-assisted projects under 24 CFR 570.201(k) and Section 105(a)(20) of the Act. Housing counseling provided to assist HOME funded projects must also meet HOME criteria, so the low- and moderate-income housing national objective should be used for this activity, although under certain circumstances, the area benefit and limited clientele national objective criteria may also apply.

CDBG-Assisted Activities for Foreclosure Prevention/Mitigation

CDBG funds may be used to make emergency grant payments for up to three consecutive months to the provider of such items or services on behalf of an individual or family [24 CFR 570.207(b)(4)]. This activity may pay for emergency mortgage (or rent) payments to prevent a family from being evicted or foreclosed upon due to temporary emergency circumstances (layoff, high medical bills, etc.). An emergency is defined as an unexpected, serious occurrence or situation requiring prompt action. This activity is considered a public service and is subject to the 15 percent public service cap unless carried out by a qualified Community Based Development Organization (CBDO) [24 CFR 570.204(c)], or a nonprofit organization serving the development needs of communities in non-entitlement areas [Section 105(a)(15) of the Act].

The appropriate national objective criterion for a foreclosure prevention activity would be low- and moderate-income limited clientele, as set forth at 24 CFR 570.208(a)(2)(i)(C) or 570.483(b)(2)(i)(C). Documentation must be maintained to show that income eligibility requirements were used that limited the activity exclusively to low- and moderate-income persons.

CBDOs and Section 105(a)(15) nonprofit organizations may provide refinancing to low- and moderate-income households facing foreclosure to assist them in remaining in their homes under the authority of 24 CFR 570.204(a) and Section 105(a)(15) of the Act. This regulatory provision allows CBDOs and 105(a)(15) nonprofit organizations to carry out activities not otherwise eligible under Subpart C of the regulations if they are part of a neighborhood revitalization project, community economic development project, or energy conservation project. The appropriate national objective criterion for this activity would be low- and moderate-income housing.

Homeowners receiving rehabilitation assistance may refinance existing indebtedness under 24 CFR 570.202(b)(3) if it is determined necessary or appropriate to achieve the locality's community development objectives. The premise is that the costs of rehabilitation along with the costs of the mortgage are made affordable for the homeowner through refinancing. This may occur by providing the homeowner with a very low or no interest rate mortgage/rehabilitation loan. This may ease the threat of foreclosure by significantly reducing a family's monthly mortgage payments while improving the quality of their living environment by rehabilitating their home. This activity must meet the low- and moderate-income housing national objective criterion.

Neighborhood Stabilization Program

HUD's Neighborhood Stabilization Program (NSP) grant is a component of the CDBG program that was established to address the problem of abandoned and foreclosed homes. The Housing and Economic Recovery Act of 2008 (HERA) provided initial funding for the NSP program. A second round of NSP funding (NSP2) was authorized under the American Recovery and Reinvestment Act of 2009, and a third round of NSP funding (NSP3) was authorized under the Wall Street Reform and Consumer Protection Act of 2010 (Frank-Dodd Act of 2010). The

“NSP3” Notice (75 FR 64322) of October 19, 2010, contains the most recent policy guidance governing the NSP.

Homebuyer counseling is eligible under the NSP program as either a public service or as an activity delivery cost associated with NSP activities in the grantee’s plan. Homebuyer counseling is eligible under:

- **Eligible Use A**, establishing financing mechanisms for purchase and redevelopment of foreclosed homes and residential properties;
- **Eligible Use B**, purchasing and rehabilitating homes and residential properties that are abandoned or foreclosed;
- **Eligible Use C**, establishing and operating land banks for homes and residential properties that have been foreclosed upon and could occur when the property is going to be sold; and
- **Eligible Use E**, redeveloping demolished or vacant properties.

Each NSP-assisted homebuyer is required to complete at least eight hours of homebuyer counseling from a HUD-approved housing counseling agency before obtaining a mortgage loan. A certificate of completion must be provided to the NSP grantee as proof. However, if HUD-approved housing counseling is not available in the grantee’s jurisdiction, the grantee may submit a request for an exception to HUD.

Most of the CDBG listed homebuyer activities are eligible under the NSP as long as the properties involved are NSP-eligible; however, NSP funds may not be used for foreclosure prevention activities. Additionally, under the NSP, qualified beneficiaries of homebuyer counseling must be low, moderate, or middle-income. Middle-income is defined as individuals and families whose income does not exceed 120 percent of area median income. Extensive guidance on housing counseling and other NSP issues is available on the NSP website which may be accessed at www.hud.gov/nspta.

HUD-approved housing counseling agencies provide advice on buying a home, renting, defaults, foreclosures, and credit issues. More information may be found at the following resources and links:

1. HUD-approved housing counseling agencies
<http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm>
2. CPD offices and general information
<http://www.hud.gov/offices/cpd/about/local/index.cfm> and www.hud.gov

3. CDBG grantee contact information
<http://www.hud.gov/offices/cpd/communitydevelopment/programs/contacts/index.cfm>
4. NSP grantees
<http://hudnsphelp.info/index.cfm?do=viewGranteeAreaResults>

If you have any questions, please contact your local CPD Field Office.